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Hatfield, Henry Rand

Paper money for war expenses

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PAPER MONEY FOR WAR EXPENSES.

BY HENRY RAND HATFIELD.

Not the least of the dangers incident to the present war is the possibility that the needs of providing for the extraordinary expenses may lead to further tampering with our national currency. The financing of a war is frequently more difficult than the conduct of its military campaigns. To the United States, deriving its revenue almost entirely from the tariff, the problem is indeed a hard one, especially at a time when the revenues furnish rather scant provision even for the peace establishment. As a solution to the problem it has already been proposed that, in spite of earlier experiences, the issue of legal tender paper money should again be resorted to as a war measure. This proposal is so fraught with danger, and is so typical of what may be expected should war continue long, that it deserves careful attention.

The theory that paper money is a positive aid in carrying on war has long been popular. In fact, the issue of paper money is seldom resorted to save in time of war. The suspension of the Bank Act in England was a war measure; the first proposition made in the United States Congress for paper money was made under the pressure of the War of 1812, and our first legal tender paper was reluctantly voted by Congress as a means for suppressing the Civil War. So wide-spread is the belief in the connection between war and paper money that there seems at least a presumption in favor of its issue as a last resort. A careful consideration will, however, show that this is but another popular fallacy.

The effect of an issue of paper in war time is twofold: First, it inflates the currency, and secondly, it is the means of obtaining a loan. Inflation, so far from being beneficial, is harmful to the interests of the government because of the derangement it causes to industry. The benefit accruing to the government must accordingly come, if at all, from the fact that it secures a loan. That this loan is secured through a process of inflation does not at all change its character as a loan nor alter the laws which affect the relations of debtor and creditor. We must divest ourselves of the idea that there is some peculiar virtue in a loan obtained in this way, and view it simply as a business transaction.

The power of the government to borrow, just as is the case with an individual, depends upon its credit. A nation's credit is influenced by various causes, but it may be said to depend on the reputation which the government has in three matters:

1. Integrity. This, like personal honesty, is a prime requisite. If a nation shows a disregard for its promises, its credit will be materially lowered, if not entirety destroyed. The low credit of Virginia and other defaulting States illustrates this.

2. Stability. A nation may be ever so honest in its intention, if it is on the verge of dissolution, its credit will be zero. The fall in the value of Confederate bonds is an illustration of this self-evident fact.

3. Ability to raise funds by taxation. The power to control wealth is the material basis of all credit. A government with no wealth on which to draw, like an individual in similar plight, cannot expect to borrow. The lack of this ability explains the poor credit of Italy, where the agricultural capacity of many of the farms being insufficient to pay taxes, the government cannot collect its assessments, nor can it sell the land for delinquent taxes, as no one is willing to buy property which is only a burden. Save in exceptional cases, where capitalists loan under a mistake of judgment, the ability to borrow rests upon the same basis as the ability to tax, i. e., upon the general prosperity and solvency of the people behind the government.

In what way, then, does an issue of paper money assist a government in borrowing? Does it better its reputation in any one of the three matters just mentioned? It surely does not improve its reputation for integrity, for the inconvertible paper money is in itself a violation of a nation's tacit or expressed agreements; it does not bring about a reputation of greater stability, for it is apparently the desperate action of a government driven to extreme measures· and, finally, it manifestly does not inspire capitalists with an idea of a great taxing power, for such an issue confesses that the government knows no other way to raise the necessary funds. The placing of bonds may, indeed, receive specious aid by the issuing of large amounts of paper money. It was this which enabled Secretary Chase to make the empty boast that he had sold all the United States bonds at par. The bonds sold at par, without doubt, but a par in depreciated currency, which, when translated into terms of gold, made the average price of the bonds not par, but 66.90 per cent., while some $147,000,000 sold at the terrible discount of 58.51 per cent.

There are many, however, who, admitting that the use of paper money is wrong in theory and always objectionable, claim that it is sometimes a practical necessity; that there are times when the people will not subscribe to a loan, and, therefore, it must be forced upon them; that, when public credit is completely exhausted paper money can yet secure a loan. This idea was the prevalent one in 1862, and was advanced by Sherman, Fessenden, Stevens, Sumner, in fact, by almost all those who voted for the legal tender acts, and it was this view which was set forth by the Supreme Court in the case of Knox vs. Lee.

Despite such distinguished authority, the theory that war can ever make necessary the issue of inconvertible paper should be rejected. It is wrong to speak of such issues as a necessity when the same ends can be gained by other means—either by taxation or by borrowing on the government's general credit—and it is a contradiction in terms to say that a nation's credit is quite exhausted, and yet it can obtain a loan through the issue ot legal tender. Indeed, the circulation of such paper is in itself a proof that other

resources are available, as will be made clear by a little analysis of the mechanism of such an issue.

There are only two ways in which a government can emit the notes which it has issued: it can use them to purchase goods or it can unload them on its creditors. In the first case, if the government is able to buy any goods whatever, from any citizen, at any rate of discount, however low. it is simply because the seller has faith in the government's promise and believes that the notes will be redeemed at some time. Hence, the argument that paper money can be used when credit is exhausted, is false. The credit of the government which makes the paper money acceptable, would, *a fortiori*, make a more desirable form of security acceptable. If the credit of the government has survived the injury done by the breach of public faith involved in the issue of paper money, it would have been much stronger had its integrity never been thus put in doubt. If, on the other hand, the notes are used in the payment of public debts, this is merely a settlement for goods or services already received. It does not furnish resources for carrying on the war. The materials necessary for future campaigns can only be secured from the owners by their voluntary acceptance of paper money or by confiscation. Such a voluntary acceptance implies that the credit of the government is still good, and that it could accordingly float a legitimate loan; the alternative of confiscation would be equally open were the paper not issued. Furthermore, the creditor of the government usually does not hold the notes he has received, but passes them on in ordinary trade. Wherever there is such further trade, we find new evidence of faith in the government's solvency, and of the existence of a stock of wealth on which the government might have levied. In brief:

1. If the government directly or indirectly makes a free contract with individuals, by which it receives commodities in exchange for its paper money, there is *ipso facto* demonstration that the government has not exhausted its credit.

2. If the government, by the legal tender quality, forces payment for goods which could not be obtained under free contract (an improbable occurrence), it shows that there are in private hands stocks of commodities more than sufficient for the owners' necessities, which the government could either tax or appropriate for its own needs without the intervention of paper money.

So far, then, from the government being justified in issuing paper money during a war, it would seem that it had selected the worst possible time for such issue. The argument that war necessitates resort to paper money reduces to the following absurdities: "In time of war it is difficult to obtain loans—therefore, it is neccessary to adopt the most unsuitable method of borrowing; the credit of the government is poor—therefore, it is neccessary to take those measures which will most surely weaken what credit remains; the government is struggling under the burdens of war and debt—therefore it is necessary to throw upon the already overstrained sinews the additional burden of a depreciating currency." The fallacy of such logic is apparent, yet few statesmen have had the wisdom of Lord Grenville, who advocated the opposite policy, declaring that: "In proportion to the danger under which the country labors, is the impolicy and desperate madness of such a measure."

Tantalizing.

Her rosy cheeks are pressed to mine,
  Her gleaming hair lies on my shoulder,
Her arms are clasped about my neck,
  And yet my arms do not infold her.

Her throbbing heart beats loud and fast,
  Her wistful eyes are gently pleading,
Her blushine lips are pursed to kiss,
  And yet my lips are all unheeding.

I coldly loose her clinging arms,
  And roughly from my side I shove her—
It's amateur theatricals,
  And I must play the tyrant lover.

Brunonian.

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